

employed in trading or loans seek Stock Exchange investments as yielding a higher return; and (2) more investments are purchased with borrowed money on account of the lowness of the terms on which it can be obtained. If an advance of £500 can be gained from a bank at 2½ per cent, the bank accepting as security a stock (bearing, we will assume, 3 per cent interest) worth £550 (that is, demanding a margin of 10 per cent), and if the stock be purchasable at par the borrower thus expends the loan of £500 and £50 of his own money, and pledges the investment as security; he thus receives on the stock £19 5s. per year, pays his interest of £12 10s. and realises a profit of £6 15s., which is at the rate of 13½ per cent per annum upon the £50 which he has himself alone provided. When, however, the Eeserve is diminished appreciably, the bank-rate of interest is increased: prices of securities accordingly become depressed in consequence of three causes: (1) Some investors sell in order to utilise their capital more profitably in trade or loans (either directly, or indirectly by purchasing industrial shares, or placing their money on deposit with banks, whence it is lent); (2) the diversion of savings for the same reason into the channels mentioned, which in other circumstances would have been invested in securities; and (3) the compulsory sale of securities by speculators who had bought them with borrowed money, and who are now compelled by the pressure of the enhanced rate of interest to abandon their transactions.

A few words and phrases which the reader will most frequently meet with in 'financial statements may be briefly explained. Money is said to be a drug (the remote origin of the word is uncertain) when its supply is greater than the demand for loans, discounts and investments in trade or securities, and the rate of interest consequently falls.

When, also, the amount of money available for loans and other purposes exceeds the demand, there is said to be a glut¹ of capital. Rates of interest for loans—or the value of money—are said

¹ From the Latin *glut-ire*, to swallow, to gulp down (hence glutton); one's fill of something, which finally cloy the appetite ; a surfeit. L